



# **Tandy Leather Factory, Inc.**

3847 E Loop 820 South - PO Box 50429 - Fort Worth, TX 76105-0429  
Phone: 817-496-4414 - Fax: 817-496-9806 - Toll Free 800-433-3201

---

Tandy Leather Factory, Inc. is an American Stock Exchange Company "TLF"

## **STATEMENT OF TANDY LEATHER FACTORY, INC.**

**ON:       SARBANES-OXLEY SECTION 404: NEW  
          EVIDENCE ON THE COSTS FOR SMALL  
          BUSINESSES**

**TO:       HOUSE SMALL BUSINESS COMMITTEE**

**BY:       SHANNON L. GREENE, CPA  
          CHIEF FINANCIAL OFFICER & TREASURER  
          TANDY LEATHER FACTORY, INC.**

**DATE:    DECEMBER 12, 2007**

## **TESTIMONY BEFORE THE HOUSE SMALL BUSINESS COMMITTEE**

### **“SARBANES-Oxley Section 404: New Evidence on the Costs for Small Businesses”**

**Testimony by Shannon L. Greene, CPA  
Chief Financial Officer and Treasurer  
Tandy Leather Factory, Inc.**

**December 12, 2007**

Good afternoon, Chairwoman Velazquez, Ranking Member Chabot, and members of the committee. My name is Shannon Greene and I am the Chief Financial Officer and Treasurer of Tandy Leather Factory, Inc. Our stock trades on the American Stock Exchange and we are a non-accelerated filer. Our market cap is currently \$40 million. We are headquartered in Fort Worth, Texas and we have 100 retail and wholesale stores located across the United States and Canada. Our annual sales are approximately \$55 million and we employ 450 people.

#### **Introduction**

The purpose of my being here today is to provide some perspective from a small business trying to maintain our position as a legitimate public company in today's market. Thank you, Chairwoman and committee members, for holding this hearing and considering my remarks today.

While I would prefer that we were discussing the potential elimination of Section 404 of the Sarbanes-Oxley Act, I acknowledge that such a discussion is irrelevant at this time. With that said, I applaud the SEC and the PCAOB for recognizing the need to provide scalable rules and guidance to smaller companies like ours as it pertains to Section 404.

I would like to present several points for consideration:

First, I believe that most small businesses support the concept of a strong internal control system.

Second, non-accelerated filers who have not had to comply with Section 404 yet should not be the testing ground for the revised rules and guidance.

Third, if a delay for non-accelerated filers is being considered, the decision to delay needs to be made now as many companies will be engaging their auditors soon for 404(b), if they haven't done so already. Waiting until the summer to decide if there is going to be a delay could result in costs being incurred unnecessarily by companies between now and then.

Fourth, the management teams of small business wear many hats as they generally do not have the financial resources for large staffs. The process required to comply with Section 404 further burdens a management that is already stretched thin. It is important that their process of compliance with Section 404 be as efficient and cost effective as possible. Given the limited resources, dollars spent inefficiently on regulatory compliance could affect a small company's ability to grow.

Fifth, it has been my experience that investors, whether individuals or institutions, are not as concerned with a company's internal control system as one might think. Many, if not all, of our investors would prefer continued growth in company profits rather than formal documentation and assessment of our internal control system.

## **Background**

Tandy Leather Factory, Inc. has been in business since 1980. We went public through a reverse merger in 1993 and our stock currently trades on the American Stock Exchange. Since we became public, we have never restated our financial statements. In addition, to my knowledge, we have never recorded an adjustment to our financial statements as the result of our year-end audit. I would suggest that, while we may not have the best documented internal control system, the system appears to be working.

We sell leather and leathercraft supplies through retail stores ("Tandy Leather") and wholesale stores ("Leather Factory"). Our support and administrative departments are centralized in Fort Worth. Our Accounting/Finance Department consists of sixteen people as follows:

- Chief Accounting Officer
- Controller
- Payroll – 2
- Accounts Payable – 3
- Accounts Receivable – 3
- Daily Reports – 5
- Accounting Assistant

The staff report to the Chief Accounting Officer who reports to the CFO. With the exception of the Chief Accounting Officer and Controller, the staff do not have any college education. We do not have an Internal Audit department. As the CFO, my professional background included a number of years in public accounting as an auditor so any internal audit function generally falls on my list of responsibilities.

## **Tandy Leather Factory's Compliance Process Under the Old Section 404 Rules**

The original compliance schedule for Section 404 required a management assertion on internal controls for the year ended December 31, 2004. The rules in place at that time required that our auditors provide an opinion on management's assertion as of that date as well. Due to our size and the limited staff who truly understood the concept of internal controls, we hired two outside consultants to help us develop the documentation of our internal control system.

Those consultants worked in our offices for six months – from July 2004 to February 2005. With their help, we put together fifteen to twenty three-ring binders and filled a four-drawer file cabinet with memos, checklists, supporting documents and other information as evidence of the internal control system currently in place. Despite the enormous amount of work I felt we had done, our auditors, during a meeting with our audit committee in March 2006, indicated that the work we had done was "very basic and preliminary."

Our earnings in 2004 were \$2.6 million. We spent \$157,000 in fees to the two consultants. That represented almost 6% of our earnings that year. That amount doesn't include the various billings from

our auditors to review “from a distance” the work we were doing and it certainly doesn’t include a dollar equivalent of the countless hours I spent working on the project.

### **Small Businesses Shouldn’t Be the Testing Ground for the Revised Guidance**

I think we all agree that the 404 process as originally implemented was much more burdensome and costly to all companies than Congress intended. While the recent revisions appear to be headed in the right direction, no one will really know until companies start implementing those new rules. And we have already seen that a mere 168 words, as was the original Section 404, had far-reaching, unintended consequences and implications. It is important that we “get it right” this time and the best companies to make that assessment are those who have already gone through the process under the original rules. They have the prior experience and the staff to appropriately compare the old rules to the new ones. Small companies in their first year of compliance can not be expected to assess the improvement in the rules as they have no basis for comparison.

The Section 404 process needs to be as streamlined as possible for small companies so that management teams can focus primarily on growing their business, creating new jobs and developing new products. It would be unfortunate to trade dollars spent on jobs or product development for inefficient regulatory compliance. The SEC and PCAOB have put forth strong efforts to ensure that companies and auditors understand the new rules and guidance because the rule changes are not easy to understand. Companies as well as auditors are still “feeling their way along”. Small companies should not be the testing ground for the new rules given that Section 404 tends to have a disproportionate cost impact on smaller companies, with the first year being the most expensive. While I recognize that the revised regulations are an improvement from the original regulations, I would like to know that the revised regulations are going to work before we have to apply them to our small company.

### **Timeliness of Decision to Delay for Smaller Companies**

It is important to emphasize that if a delay is being considered for non-accelerated filers, the decision needs to be made very soon. Our company’s year-end is December 31<sup>st</sup>. 404(b) applies to us for 2009. We don’t have the luxury of waiting until the summer or fall to engage our auditors. As a result, announcing a delay then will significantly minimize the benefit of that delay for a company like ours as we will have already incurred sizable costs in the form of additional audit fees during the first half of the year.

### **Do Investors Care about Section 404 Compliance?**

We are considered a micro-cap in the world of public companies. Our market cap and trading volume is quite small, relatively speaking. Approximately 35% of our outstanding stock is owned by institutions some of which are so large, they could buy our entire company and not even realize it. I meet with a number of these institutions, as well as individual stockholders, either via telephone or in person numerous times a year. Many of our stockholders own our stock because they believe in the potential of our company and are comfortable that the management team knows how to grow the company and therefore increase its value. In all of my discussions with our stockholders and potential stockholders, I have yet to be asked about our internal control system and whether we are or expect to be in compliance with Sarbanes-Oxley Section 404. However, I am frequently asked how much we have and will spend trying to comply and how much of a negative impact it will have on our earnings. While most investors

want to invest in ethical companies, I'm not getting the impression that the internal control system is what helps those investors make that determination. Again, it's the people of the company.

Due to the immense regulatory burden on public companies, large and small, I would suggest that we are discouraging companies from participating in the public markets because it is not worth the effort. The objective of Section 404 of the Sarbanes-Oxley Act is to provide meaningful disclosure to investors about the effectiveness of a company's internal control systems. Said a different way, investors should be able to rely on the information they are getting from a company. Rather than penalizing all companies with increased regulation, I think stiffer and swifter penalties for offenders is a more effective deterrent and would contribute more to the goal of a reputable public market.

I am not minimizing the importance of regulatory compliance. While I do not always agree in principal with the rules and regulations set forth, I can assure you that my company takes this very seriously. We choose to operate our business within the rules, whether we agree with them or not. And we will comply with the rules of Section 404. I would just like to know that the cost to comply is money well spent.

## **Conclusion**

Chairwoman Velazquez, Ranking Member Chabot, and members of the committee, I appreciate the opportunity to be here today and I hope you found my thoughts and opinions helpful. In summary, please consider my request to delay Section 404 compliance for small companies until it has been proven that the rules are achieving the intended results. Thank you for your time.